

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

**Relational Investors
Second Quarter 2005**

Investment Type: U.S. Corporate Governance Fund

Inception Date: March 1996

Capital Commitment: \$750 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 106.1 million	\$2,496.2 million
Distributed Capital:	\$ 6.4 million	\$2,070.8 million

Market Value (6/30/05): \$ 1,082.6 million

Investment Strategy:

Relational Investors employs a corporate governance strategy aimed at unlocking intrinsic value in underperforming, publicly traded, U.S. companies. When compared to the broader market and industry peers, these companies typically exhibit inferior performance in one or more of the following areas: operations, financial structure, long-term strategy, corporate governance policies or management. Each investment represents a significant percentage of a particular company's outstanding shares, generally 3-10%. Relational Investors then seeks to maximize investment value by initiating contact with the company's management, board of directors and other shareholders to facilitate change.

Summary Analysis:

Number of Investments: 12

Organization: Relational added Brendan Springstuff, Associate Analyst, and Jian Yu, Controller during the quarter. Brendan will assist research analysts with investment research. Jian is replacing Tara Richards, who left the firm last quarter. Two Associate Analysts, Diana Devot and Matthew Harrison, left the company during the quarter. Turnover at the Associate Analyst level is expected as this is generally a two-year program.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2005, Relational has outperformed its benchmark by 16.79% on an annualized basis.

	Since Inception
Relational Investors (IRR)	25.37%
S&P 500 Index (IRR)	8.58%
Excess Return	16.79%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Active Value
Second Quarter 2005

Investment Type: European Corporate Governance Fund

Inception Date: September 1998

Capital Commitment: \$350 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.2 million	\$ 354.4 million
Distributed Capital:	\$ 138.6 million	\$ 310.5 million

Market Value (6/30/05): \$ 120.8 million

Investment Strategy:

Active Value Capital employs a corporate governance strategy aimed at unlocking intrinsic value in under performing, publicly traded, European companies. Active Value Capital targets fundamentally strong companies with leading positions in their respective industries that suffer from poor management, have a capital structure in need of restructuring, have undervalued brands or franchises, suffer from over-expansion or are in industries likely to undergo consolidation. Each investment will consist of either 25% of a company's outstanding preference shares or 10% of a company's ordinary shares where preference shares do not exist. Active Value then seeks to maximize investment value by initiating contact with the company's management, board of directors and other shareholders to facilitate change.

Summary Analysis:

Number of Investments: 5

Organization: No material changes.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2005, Active Value's Total Composite, which is comprised of Class A, Class CIP and Pledge A, underperformed its benchmark by 0.79% on an annualized basis. The Class A & CIP Composite underperformed by 1.47%, while Pledge A outperformed by 0.58% on an annualized basis.

Since Inception	Total Composite	Class A & CIP Composite	Pledge A
Active Value (IRR)	6.60%	5.92%	7.97%
FTSE 250 Index (IRR)	7.39%	7.39%	7.39%
Excess Return	-0.79%	-1.47%	0.58%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Hermes Lens
Second Quarter 2005

Investment Type: U.K. Corporate Governance Fund

Inception Date: November 1999

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 199.9 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (6/30/05): \$ 285.6 million

Investment Strategy:

Hermes Lens Asset Management (HLAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, U.K. companies. For companies that meet their initial purchase criteria, HLAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HLAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE 250 futures.

Summary Analysis:

Number of Investments: 15

Organization: No material changes.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2005, the Hermes UK Focus Fund has outperformed its benchmark by 4.57% on an annualized basis.

	Since Inception
Hermes UK (IRR)	6.54%
FTSE All Share (IRR)	1.97%
Excess Return	4.57%

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT
SPARX Asset Management
Second Quarter 2005

Investment Type: Japanese Corporate Governance Fund

Inception Date: January 2003

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 106.9 million	\$ 491.9 million
Distributed Capital:	\$ 0.0 million	\$ 201.7 million

Market Value (6/30/05): \$ 429.8 million

Investment Strategy:

The SPARX Value Creation Fund targets underperforming or undervalued companies based in Japan with a market capitalization between \$300 million and \$3 billion. The SPARX Research Platform, which is a research team of ten analysts, will use quantitative and qualitative screens to identify approximately 40 target companies from the SPARX database of 2,500 companies. The Value Creation group then will conduct in-depth research on these target companies by initiating contact with company management. These companies typically exhibit one or more of the following traits: low valuation, potential for balance sheet optimization, or potential for profit improvement. The fund looks to invest in 5-10 companies per year with 5-20% of net asset value dedicated to each investment. It will actively engage and work in partnership with management or major shareholders to unlock the investment's value over a specified period of time. The performance objective for the fund is the Topix Index + 150 basis points.

Summary Analysis:

Number of Investments: 8

Organization: SPARX added a total of 17 professionals during the quarter. Shiro Hayashi joined the VCI team as an analyst. In addition, 4 research analysts were added to the research platform to strengthen research capabilities, though these analysts are not specifically assigned to the VCI team.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2005, SPARX has outperformed its benchmark by 21.32% on an annualized basis.

	Since Inception
SPARX Value Creation (IRR)	34.75%
Topix Index (IRR)	13.43%
Excess Return	21.32%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Hermes Lens
Second Quarter 2005

Investment Type: European Corporate Governance Fund

Inception Date: August 2003

Capital Commitment: \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 100.0 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (6/30/05): \$ 152.9 million

Investment Strategy:

Hermes Lens Asset Management (HLAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, European ex-U.K. companies. For companies that meet their initial purchase criteria, HLAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HLAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE Europe ex-U.K. futures.

Summary Analysis:

Number of Investments: 19

Organization: Hermes Europe hired Thorsten Doerr as an Associate. Thorsten supports the investment team with both investment analysis and shareholder engagement activities.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2005, the Hermes Europe Focus Fund has outperformed its benchmark by 3.46% on an annualized basis.

	Since Inception
Hermes Europe (IRR)	27.40%
FTSE Europe ex-U.K. (IRR)	23.94%
Excess Return	3.46%

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**Taiyo Pacific Partners/WL Ross
Second Quarter 2005**

Investment Type: Japanese Corporate Governance Fund

Inception Date: July 2003

Capital Commitment: \$199.6 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 95.1 million	\$ 294.7 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (6/30/05): \$ 374.4 million

Investment Strategy:

Taiyo Pacific Partners/WL Ross believe that public equity investors in Japan can be rewarded with superior returns by investing in companies that will implement corporate governance improvements. The investment strategy has two elements. First, identify undervalued stocks utilizing Taiyo's asset value and earnings potential analysis. Second, create valuation improvements by means of a three-phase corporate governance strategy. The three phases are: improving transparency and disclosure, improving corporate profitability, and improving shareholder value. Taiyo proposes to use its own proprietary database to identify target companies. Once identification is made, Taiyo's strategy is to be a constructive shareholder with those companies willing to make corporate governance improvements.

Summary Analysis:

Number of Investments: 8

Organization: Taiyo added Paul Jones as a dedicated trader during the quarter. Paul will be responsible of trading out of the Monterey office. Tatsuo Kubota, an employee of WL Ross, has decided to move back to Japan permanently and relinquished his position on the Investment Committee. Tatsuo will continue to serve as a consultant to the fund on a retainer basis but will not have voting power.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2005, Taiyo has outperformed its benchmark by 15.93% on an annualized basis.

	Since Inception
Taiyo (IRR)	23.78%
Topix Index (IRR)	7.85%
Excess Return	15.93%

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HYBRID INVESTMENTS MONITORING REPORT**

Knight Vinke
Second Quarter 2005

Investment Type: European Corporate Governance Fund

Inception Date: June 2003

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 29.6 million	\$ 132.5 million
Distributed Capital:	\$ 0.0 million	\$ 74.3 million

Market Value (6/30/05): \$ 86.0 million

Investment Strategy:

Knight Vinke believes that in the absence of effective corporate governance and a truly independent board, the separation of ownership and management can create the opportunity for management to act in its own self interest rather than that of the shareholders. The strategy looks to identify underperforming stocks of companies that are fundamentally strong where redress of the underperformance is possible in a reasonable amount of time. The firm believes that detailed fundamental analysis can identify underperforming companies that have strong operating businesses, but are in need of a corporate finance solution to a factor or factors that specifically is depressing the share price. To identify such companies the firm uses several sources: its own screening process through market information services such as Bloomberg, their own industry knowledge, outside brokers, other institutional shareholders, other corporations, industry manager who may have recently retired, or corporate finance professionals.

Summary Analysis:

***Number of Investments:* 2**

Organization: Jeff Kiel was appointed to the Investment Committee to replace Edouard Stern, who passed away recently.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2005, Knight Vinke has outperformed its benchmark by 8.20% on an annualized basis.

	Since Inception
Knight Vinke (IRR)	26.37%
FTSE World Series Europe (IRR)	18.17%
Excess Return	8.20%

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Shamrock Capital
Second Quarter 2005

Investment Type: U.S. Corporate Governance Fund

Inception Date: December 2004

Capital Commitment: \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 19.1 million	\$ 42.3 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (6/30/05): \$ 43.3 million

Investment Strategy:

Shamrock believes that combining a deep value investment orientation with an activist shareholder approach founded upon best governance practices, results in superior returns for long-term investors. They seek to find underperforming but fundamentally sound businesses, where they can substantially improve shareholder value with their application of good governance practice. They choose to look at companies they can purchase at a significant discount (<40%) to the underlying value and find free cash flow available to owners that typically exceed 10%. Once these criteria are met, Shamrock will only invest if they believe they can persuade the Board and/or management to believe in their activist strategy to make fundamental changes to the governance structure and business. After investing, persistence and careful monitoring is the key to unlocking value.

Summary Analysis:

Number of Investments: 2

Organization: No material changes.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2005, Shamrock has underperformed its benchmark by 5.05%. However, the manager was only hired at the end of 2004. We expect performance to improve as the manager adds more holdings to the portfolio and as engagements with companies mature.

	Since Inception
Shamrock (IRR)	4.08%
Russell 2000 (IRR)	9.13%
Excess Return	-5.05%